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INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001409

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E.O. 12958: DECL: 09/15/2017

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SUBJECT: REGIONAL TELECOM GIANT ZAIN (FORMERLY MTC) MOVES
HQ FROM KUWAIT TO BAHRAIN

REF: KUWAIT 443

Classified By: Acting DCM Tim Lenderking for reasons 1.4 (b) and (d).

11. (C) Summary and Comment: On 28 August, Kuwait-based regional telecommunications giant MTC announced that it would establish its international corporate headquarters in Bahrain. MTC (rebranded as Zain on September 8) is the second largest Arab telecom by market capitalization and is the largest publicly-traded company in Kuwait. Kuwait's Acting Communications Minister told local press that the GOK, MTC's largest shareholder, opposed the move, saying, "MTC is Kuwaiti and should stay in Kuwait." Barrak Al-Sabih, CEO of MTC-Kuwait, explained to Econoff that MTC's board would remain in Kuwait, but its CEO and other corporate executives would relocate to Bahrain. Al-Sabih said that the Crown Prince of Bahrain offered MTC a number of incentives and that, overall, Bahrain was a much more business-friendly environment than Kuwait. We hope that a decision by the biggest company on the Kuwait Stock Exchange to move its headquarters out of Kuwait will serve as a wake-up call to the Kuwaiti leadership that its continuing failure to pass and implement key economic reform legislation is making Kuwait increasingly less competitive compared to its Gulf neighbors. End Summary and Comment.

12. (U) On 28 August, Kuwait-based regional telecommunications company MTC announced that it would establish its international corporate headquarters in Bahrain. MTC (rebranded as Zain on September 8) is the second largest Arab telecom by market capitalization and operates in 20 countries in the Middle East and Africa (where it operates as Celtel). In 2008, the company also plans to commence operations in Saudi Arabia, where it spent USD 6.1 billion for the country's third mobile license in March. Following MTC's announcement, Kuwait's Acting Minister of Communications Abdulwahed Al-Awadhi told Kuwaiti newspaper Al-Rai that the GOK opposed the move, saying, (Note: With a 24.6 per cent stake, the GOK is the largest shareholder in MTC, Kuwait's largest publicly-traded company. End note.) According to Al-Rai, MTC Deputy Chairman and CEO Dr. Saad Al-Barrak responded by saying that Kuwaiti law was not investor-friendly and that Kuwait only accounted for 15 per cent of MTC's revenue, a figure that would fall to 7 per cent in two years. In a 3 September meeting, Under Secretary of Communications Abdulaziz Al-Osaimi told CDA that he believed the issue had been resolved so that MTC's headquarters would remain in Kuwait and "only its international operations would be based in Bahrain."

13. (C) On 12 September, Econoff met with Barrak Al-Sabih, CEO of MTC-Kuwait, who explained that MTC's intention was to consolidate all of its corporate executives and many of the functions of its regional subsidiaries into a single

headquarters in Bahrain. Presently, Celtel (MTC-Africa) has most of its executives in Amsterdam and MTC-Middle East has its executives farmed out over Kuwait, Jordan, and Bahrain with a number of unnecessary redundancies in both personnel and functions. Al-Sabih said MTC had decided to establish a Corporate Group Headquarters (including corporate CEO, CFO, COO, CIO, etc.) in Bahrain and consolidate its subsidiary units into three groups: Middle East, based in Amman; Africa, based in Amsterdam; and Kuwait, based in Kuwait City. The non-executive chairman and the rest of the board of directors would remain in Kuwait. Al-Sabih admitted that MTC would have preferred to consolidate Kuwait's operations into the Middle East group but was essentially forced to maintain a separate Kuwait office as a concession to the GOK.

14. (C) When asked why MTC had selected Bahrain, Al-Sabih said, "Kuwait is not a business-friendly environment." He explained that MTC CEO Saad Al-Barrak had approached the Bahraini Crown Prince, who offered a number of sweeteners, including a land concession; a dedicated government office to handle MTC's visa, residence, and permit issues; and a "tax shield." Al-Sabih added that Bahrain offered a number of other advantages over Kuwait, including better air travel connections, no restrictions on home ownership by expatriates, access to better schools, lower consumer prices, a better lifestyle, and no quota for hiring host-country nationals. Al-Sabih also pointed to the inability of the Kuwaiti Government and Parliament to enact desperately needed economic reforms and remarked that Kuwait was now the only country in the region besides Iran that still lacks a telecommunications regulatory authority.

15. (C) Comment: We hope that a decision by the biggest company on the Kuwait Stock Exchange to move its headquarters

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out of Kuwait will serve as a wake-up call to the Kuwaiti leadership that its continuing failure to implement critical economic reforms is making Kuwait increasingly less competitive compared to its Gulf neighbors. Key legislation on privatization, foreign investment, corporate tax, IPR protection, stock market regulation, public-private partnerships, and telecommunications regulation continues to stagnate as Kuwait's Government and Parliament remain politically deadlocked. Across the board, our contacts in both the public and private sectors recognize the need for economic reforms but express little hope that any of these reforms will be carried out in the near term.

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